

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 TRSE-00 AID-05 COME-00 AGRE-00

OMB-01 SP-02 CIAE-00 INR-07 NSAE-00 /030 W

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 779

INFO AMEMBASSY KUALA LUMPUR

AMCONSUL MEDAN

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E.O. 11652: N/A

TAGS: EFIN, EAID, IBRD, ID

SUBJECT: IBRD PALM OIL LOAN TO INDONESIA

REF: STATE 85863

1. IN MEETING WITH EMBOFFS, LOCAL IBRD MISSION EXPLAINED SMALLHOLDER/NUCLEUS ESTATE PROJECT AS FOLLOWS: TOTAL PROJECT COSTS ARE \$130 TO \$150 MILLION, OF WHICH \$75 MILLION WOULD COME FROM IBRD. PROJECT IS LOCATED IN SOUTH SUMATRA, STATE PLANTATION (PNP 10) WHICH WILL BE PRINCIPAL RECIPIENT OF PROJECT FUNDS IS AT PRESENT A MARGINAL OPERATION. IBRD/GOI PLAN IS TO STRENGTHEN OVERALL ECONOMICS OF PNP 10 OPERATION AND RESTORE LONGER TERM VIABILITY. ONE RELATIVELY SMALL ASPECT OF OVERALL PROGRAM (ABOUT \$17 MILLION OR 11-13 PERCENT OF TOTAL PROJECT) WILL BE SMALLHOLDER PALM OIL DEVELOPMENT ON SOME 5,500 HECTARES WHERE PALM OIL IS BEST SUITED CROP FOR LOCAL SOIL AND CLIMATE CONDITIONS. IBRD OFFICIALS SAY PALM OIL ELEMENT COULD NOT EASILY BE DELETED FROM PROJECT WITHOUT UNDERMINING FEASIBILITY OF OVERALL PLAN.

2. BASED ON OUR LIMITED KNOWLEDGE OF TOTAL PROJECT, IT
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IS DIFFICULT FOR US TO JUDGE ITS COMMERCIAL VIABILITY. OBVIOUSLY, IBRD AND GOI BELIEVE IT MAKES SENSE OR THEY WOULD NOT BE SUPPORTING PROJECT. IBRD ESTIMATES THAT TOTAL PROJECT WILL BENEFIT 11,500 SMALLHOLDERS AND 4,000 CASUAL WORKERS AND THEIR FAMILIES. IT WILL BE IMPORTANT GENERATOR OF INCOME AND EMPLOYMENT IN RELATIVELY POOR RURAL AREA. NO BREAKDOWN IS AVAILABLE AS TO NUM-

BER OF PERSONS DIRECTLY BENEFITING FROM PALM OIL DEVELOPMENT.
WILL RESPECT TO AVAILABILITY OF COMMERCIAL FINANCING,
WE HAVE BEEN TOLD THAT IN ITS PRESENT FINANCIAL CONDI-
TION PNP 10 WOULD BE UNABLE TO ATTRACT COMMERCIAL CREDITS
FOR EXPANSION/DIVERSIFICATION AND EVEN IF FINANCIAL
CONDITION OF THE PLANTATION WERE STRONGER IT APPEARS UNLIKELY
THAT COMMERCIAL BANKS WOULD BE WILLING TO
FINANCE SMALLHOLDERS SCHEME.

3. WHEN PALM OIL PORTION OF PROPOSED PROJECT REACHES
FULL DEVELOPMENT, PALM OIL PRODUCTION WOULD BE IN-
CREASED BY ABOUT 20,000 METRIC TONS PER YEAR. AT PRESENT
VIRTUALLY ALL PALM OIL PRODUCED IN SOUTH SUMATRA IS
CONSUMED DOMESTICALLY. IBRD OFFICIALS ARE OF THE OPINION
THAT MOST IF NOT ALL OF THE NEW PALM OIL PRODUCTION
DERIVED FROM PNP 10 PROJECT WILL ALSO BE USED
LOCALLY.

4. DOMESTIC DEMAND IN 1977 FOR VEGETABLE OILS IN
INDONESIA IS ESTIMATED AT 750,000 METRIC TONS. PER
CAPITA CONSUMPTION IS EXPECTED TO GROW ALONG WITH
INCREASING INCOME AND TOGETHER WITH POPULATION GROWTH
IS EXPECTED TO PUSH DOMESTIC DEMAND FOR VEGETABLE OILS
TO ABOUT 1.6 MILLION METRIC TONS BY 1990.

5. COCONUT OIL HAS TRADITIONALLY SUPPLIED THE BULK
OF VEGETABLE OILS CONSUMED IN INDONESIA. (COCONUT
OIL IS PREFERRED BY CONSUMERS OVER ALL OTHER OILS.)
HOWEVER, OVERAGED TREES AND PLANT DISEASES HAVE SLOWED
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EXPANSION OF COCONUT OIL PRODUCTION. THE GOI IS CON-
CERNED ABOUT THE INCREASING GAP BETWEEN SUPPLY OF AND
DEMAND FOR COCONUT OIL AND IS ENCOURAGING A TREE
REPLANTING SCHEME. HOWEVER, IT IS NOT AT ALL CLEAR
HOW SUCCESSFUL THIS SCHEME WILL BE AND EVEN IF TARGETS
ARE MET, COCONUT PRODUCTION WILL NOT BE SUFFICIENT TO
MAINTAIN COCONUT OIL'S PRESENT SHARE OF THE DOMESTIC
MARKET. IT IS LARGELY FOR THIS REASON THAT THE GOI IS
ENCOURAGING PALM OIL PRODUCTION. INDONESIANS DO NOT
PARTICULARLY LIKE CRUDE PALM OIL BUT IT IS BELIEVED THAT
REFINED (FRACTIONATED) PALM OIL BLENDED OR FLAVORED
WITH COCONUT OIL CAN BE USED TO FILL THE GAP FROM DE-
CLINING COCONUT OIL SUPPLIES.

6. WE HAVE SEEN VEGETABLE OIL PRODUCTION ESTIMATES
FOR INDONESIA IN 1990 WHICH RANGE ALL THE WAY FROM
1.5 MILLION METRIC TONS TO 2.1 MILLION METRIC TONS.
IF HIGH ESTIMATE IS ACHIEVED, INDONESIA WOULD HAVE AN
EXPORTABLE SURPLUS OF ABOUT 500,000 METRIC TONS IN

1990 AS COMPARED WITH EXPORTS OF ABOUT 404,000 TONS
IN 1976. THIS WOULD REPRESENT AN ANNUAL EXPORT GROWTH
OF ABOUT 1.5 PERCENT PER YEAR, PRESUMABLY WELL BELOW
GROWTH IN WORLD DEMAND. THEREFORE, EVEN IF HIGH ESTIMATE
IS ACHIEVED BY 1990, INDONESIA IS EXPECTED TO HAVE SMALLER
SHARE OF WORLD TRADE IN VEGETABLE OILS THAN IS PRESENTLY
THE CASE. ON THE OTHER HAND, IF ONLY LOW ESTIMATE IS
ACHIEVED BY 1990, INDONESIA WILL BE A VEGETABLE
OIL DEFICIT COUNTRY AND WILL HAVE TO IMPORT SUPPLIES
TO MEET DOMESTIC REQUIREMENTS.

7. COMMENT. ALTHOUGH FOREGOING ANALYSIS DOES NOT PRO-
DUCE CLEAR CUT RESULT, IN OUR VIEW PROPOSED PROJECT
APPEARS TO COME WITHIN QUIDELINES ALLOWING USG TO SUPPLORT
IT OR AT LEAST NOT TO OPPOSE IT IN BOARD OF DIRECTORS
REVIEW.

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